GOVERNMENT OF ANDHRA PRADESH
ABSTRACT

Ind. & Com. Department – Approval of the proposal for Collaboration with the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE), GoI, to implement the Andhra Pradesh Credit Guarantee Scheme for MSEs (AP-CGS-MSE) in the State of Andhra Pradesh - Orders – Issued.

INDUSTRIES & COMMERCE (PROG-I) DEPARTMENT

G.O.MS.No. 57 Dated: 24-09-2024

Read the following:

1. E-file received from the Director of Industries, e-file No. INC02-20029/203/2022-MSME&E&C&BII-DOI, (Computer No. 1877112).
2. E-file received from the Director of Industries, e-file No. INC02-20029/28/2023-MSME&E&C&BII-DOI, (Computer No. 2036432).

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ORDER:

In the reference 1st read above, the Director of Industries has informed that the C.E.O, Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) vide his E-mail dt.29.08.2024 has informed that the CGTMSE, an institution jointly promoted by Min. of MSME, GoI and SIDBI, is the pioneer institution for providing credit guarantee to MSEs in the country through collateral free loans. So far the institute has facilitated collateral free lending worth Rs.9,176 crore benefiting 4.8 lakh MSE units in the State of AP. He has further informed that CGTMSE scheme with enhanced guarantee coverage for MSEs in Andhra Pradesh, would provide 75% guarantee coverage loan provided by CGTMSE and 20% coverage by the State Government and this would mitigate the risk perception of lending institutions and encourage them to lend to MSEs. The additional guarantee coverage would be available at no extra cost to the borrowers. The CEO, CGTMSE estimated that a corpus support of Rs.100 crore would lead to portfolio creation of Rs.5000 crore in the State.

2. In this regard, the Director of Industries, vide references 1&2 cited above, has submitted a proposal for approval of collaboration with the CGTMSE, GoI, to implement the Andhra Pradesh Credit Guarantee Scheme for MSEs (AP-CGS-MSE), for providing reliable credit guarantee mechanism, for the Micro and Small Enterprises (MSEs) in the State of Andhra Pradesh, with initial fund of Rs.100 Crores for FY 2024-25. The Salient features of the proposed Andhra Pradesh Credit Guarantee Scheme for MSEs (AP-CGS-MSE) are given in the Annexure.

3. Government, after careful examination of the matter, hereby approved the proposal of the Director of Industries for collaboration with the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE), GoI, to implement the Andhra Pradesh Credit Guarantee Scheme for MSEs (AP-CGS-MSE), for providing reliable credit guarantee mechanism, for the Micro and Small Enterprises (MSEs) in the State of Andhra Pradesh, with initial fund of Rs.100 Crores for FY 2024-25.

(P.T.O)

4. This order issues with the concurrence of the Finance (FMU.I&I, Energy, I&C) Dept. vide their U.O.No.FIN01-FMU0ASD(IC)/3/2024 (Computer No.2545813), Dt. 11.09.2024.

5. The Director of Industries shall enter into the MoU (enclosed) with CEO, CGT MSE and take further necessary action in the matter.

(BY ORDER AND IN THE NAME OF THE GOVERNOR OF ANDHRA PRADESH)

N .YUVARAJ
SECRETARY TO GOVERNMENT & CIP

To
The Director of industries, APIIC Towers, Mangalagiri.(w.e.)
Copy to:
The GA (Cabinet) Department.(W.r.to U.O.No.178/2024, dt:23.09.2024)
The Finance Department.
The P.S. to Hon'ble Minister for MSME.
The P.S. to Chief Secretary to Government.
The P.S to Secretary to Government, Ind. & Com. Department.
Sf/Sc(1893275)

// FORWARDED::BY ORDER //

SECTION OFFICER

Annexure

SALIENT FEATURES of the *Andhra Pradesh Credit Guarantee Scheme for MSEs (AP-CGS-MSE) Scheme*

1. The Andhra Pradesh Credit Guarantee Scheme for MSEs (AP-CGS-MSE) is a critical initiative aimed at enhancing credit flow to micro and small enterprises (MSEs) in the state. The scheme is justified by the following key factors:

- **Addressing a pressing need**: MSEs in Andhra Pradesh often face challenges in accessing credit due to lack of collateral security. The AP-CGS-MSE directly addresses this issue by providing a credit guarantee that mitigates the risk perception of lending institutions.
- **Promoting economic growth**: MSEs play a vital role in the state's economy, contributing to job creation, entrepreneurship, and overall development. By facilitating easier access to credit, the AP-CGS-MSE can significantly boost the growth and competitiveness of the MSME sector.
- **Supporting job creation**: The AP-CGS-MSE can contribute to job creation by enabling MSEs to expand their operations and hire more employees. This will help reduce unemployment rates and improve the livelihood of the state's population.
- **Promoting entrepreneurship**: By providing a supportive environment for MSEs, the AP-CGS-MSE can encourage entrepreneurship and innovation, leading to the development of new businesses and products.
- **Strengthening the state's economy**: The scheme can strengthen the overall economic resilience of Andhra Pradesh by ensuring a vibrant and sustainable MSME sector.

2. *Assuming a high NPA of about 10% under the proposed mechanism since 100% loan guarantee is proposed, the likely creation of portfolio is given below:*

Particulars	Amount in Crores
Portfolio created out of collaboration	100
Expected NPA in Portfolio of Rs.100 Cr (I0%)	10
CGTMSE portion of Loss (75%) of the Guarantee	7.5
State Govt. Fund portion of Loss (20%) of the Guarantee	2.0
Since Rs.2.0 crore of fund is leading to a creation of Rs.100 crore of portfolio, a corpus size of Rs.100 crore will create a portfolio of	5,000

From the above, it can be observed that multiplier effect under the Scheme is creating leverage of 50 times of the State Government corpus.

- *To prevent the issue of moral hazard, government share of coverage may be limited to maximum 20% so that maximum guarantee coverage is 95%.*

(P.T.O)

3. **Impact of the Collaboration:**

- It is seen that multiplier effect under the Scheme is creating leverage of about 50 times of the Funds placed with CGTMSE by providing additional guarantee of 20%.
- Considering average ticket size of Rs.7 lakh of the loan, more than 70,000 MSME borrowers would be supported in the State.
- Assuming minimum 3 employees per unit, more than 2 lakh employment opportunities would be created.
- Assuming 50% new units, more than 35,000 green field projects/new to bank MSME borrowers would be supported.
- The Director of Industries recommended to create a corpus of Rs.100 Cr as department is working with a target of achieving 1,25,000 MSME units and there is scope for speedy finance from banks with 100% CGTMSE coverage to MSEs in the state.

4. Similar schemes have been launched by other States, such as Tamil Nadu, Goa, West Bengal, Odisha, Assam, Meghalaya, etc, by collaborating with CGTMSE.

5. Proposed Approach

5.1 The proposed approach for the implementation of the Andhra Pradesh Credit Guarantee Scheme for MSEs (AP-CGS-MSE) is as follows:

- Post approval of the Scheme, MoU will be signed by Industry Department of Andhra Pradesh with CGTMSE.
- The entire / part of the committed corpus (at least Rs.10 crore) will be placed with CGTMSE to start with the collaboration. The balance amount of the committed corpus can be contributed in tranches as per requirement/convenience.
- CGTMSE would run the Scheme and manage the funds by charging a one time management fee to cover its operational costs as mentioned in the MoU.
- The Fund given by the State Government would be kept by CGTMSE separately in an FD with a commercial bank and interest earned on it would be credited back to the same corpus and will not be used by CGTMSE for any other purpose. Timely release of fund towards one time administrative charges / management fee of 0.75% of the corpus amount or actual expenditure incurred by the Trust, whichever is higher.

5.2 The salient features of the MoU are:

i. Government of Andhra Pradesh has decided to implement the scheme titled "Andhra Pradesh Credit Guarantee Scheme for MSEs (AP-CGS-MSE)" for the benefit of Micro and Small Enterprises.

(Contd...3)

ii. Government of Andhra Pradesh will place the Fund with CGTMSE which will be used by CGTMSE to cover the MSE units located in Andhra Pradesh.

iii. CGTMSE will provide guarantee coverage in the range of 75% - 85% as applicable under its ongoing CGS I & II Schemes (as the case may be) from its own funds and additional 20% - 10% will be guaranteed from the Fund placed by the State Government to cover 95% of the loan amount as disbursed by the lending institutions.

iv. The applicability of the Scheme would be for fresh and/or existing credit facility sanctioned to MSEs initially not covered under CGTMSE or any other such Scheme upto maximum limit of 500 lakh. Exiting credit facility secured by collateral security can be covered under Hybrid Security Model of CGTMSE. The scheme is available to all Eligible MSEs/Activity which satisfied the norms of GGTMSE credit guarantee schemes.

v. The periodicity of fling of claims by lending institutions will be after the lock in period of 18 months from the guarantee start date.

vi. Credit facility guaranteed under APCGS shall be subject to the relevant conditions stated in this MoU and any modifications in the conditions can be altered on mutual agreement of the parties communicated through email, without affecting the validity of this MoU.

vii. For the loans given by the Member Lending institutions of CGTMSE under APCGS scheme, the extent of coverage would be from CGTMSE as per its CGS I&II schemes (as the case may be and subject to modification from time to time as per credit Guarantee scheme of the Trust) with overall guarantee of 95% as given below:

Category of Borrower	Credit facility	Max. extent of coverage (%)		
		CGTMSE	GoAP	Total
Micro	0 – 5 lakhs	85%	10 %	95 %
	Above 5 - 500 lakh	75%	20 %	95 %
Small	0-500 lakh	75%	20 %	95 %
Micro & Small (Women Entrepreneur / MSEs situated in Aspirational Districts/ZED certified MSEs/SC/ST entrepreneurs/PWD/MSEs promoted by Agniveers	0-500 lakh	85%	10 %	95 %

viii. The guarantee coverage under Andhra Pradesh credit guarantee scheme shall be 95% at unit level. The guarantee coverage of the State Government shall be limited upto a maximum NPA level of 10% of the crystalised portfolio of an MLI in a particular year. For this purpose, the portfolio shall, be crystalised as on March 31st of the relevant year.

(Contd...4)

ix. CGTMSE would be honouring the claims to the extent of corpus available. Additional requirement to be provided by GoAP in advance
x. In case the NPA level exceeds the above limit' guarantee on CGTMSE portion only shall be applicable'
xi. The detailed operating guidelines and the scheme document will be finalised in consultation with the GoAP post signing of this MoU'

5.3 Corpus Fund Allocation: The Cabinet approval is a corpus fund of Rs.100 crore from the 2024-25 budget, to start with. The specific head of account (HoA) for this allocation should be identified and specified. Immediately after the step, initial corpus to the tune of Rs.10 crore will be released by the Government of Andhra Pradesh and additional release of the corpus will be done as and when the demand is given by the CGTMSE. The total corpus commitment towards the proposed APCGS will be Rs.500 crores.

5.4 Scheme Design and Implementation: The GoAP and CGTMSE will jointly finalize the detailed scheme design, including eligibility criteria, guarantee coverage levels, claim settlement procedures, and other relevant aspects.

5.5 Publicity and Awareness Creation: A comprehensive publicity campaign will be launched to create awareness among MSEs about the AP-CGS-MSE and its benefits. This will include workshops, seminars, and online resources.

5.6 Monitoring and Evaluation: A robust monitoring and evaluation framework will be established to track the performance of the scheme and ensure that it is achieving its objectives. Regular reviews will be conducted to identify areas for improvement and make necessary adjustments.

5.7 Claim Settlement: CGTMSE will be responsible for settling claims from lending institutions in accordance with the scheme's guidelines. The GoAP will provide the necessary funding to cover the State Government's share of the guarantee coverage.

5.8 Risk Management: Appropriate risk management measures will be implemented to mitigate the risks associated with the scheme, such as credit risk and operational risk.

5.9 Collaboration with Other Departments: The Industry Department of GoAP will collaborate with other relevant departments, such as the H&T, ITE&C, etc to ensure the effective implementation of the AP-CGS-MSE and its integration with other state-level initiatives for MSME development.

N .YUVARAJ
SECRETARY TO GOVERNMENT & CIP